"Teamlease Services Limited Q1 FY19 Results Conference Call"

July 24, 2018

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MODERATOR: **MR. ROHIT DOKANIA – IDFC SECURITIES**

Moderator: Ladies and Gentlemen, Good day and Welcome to the Teamlease Services Limited Q1 FY19 Results Conference Call, hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Dokania of IDFC Securities. Thank you and over to you, sir.

Rohit Dokania: Thank you, Vikram. Good evening, everyone. Welcome to the Q1 FY19 Results Conference Call of Teamlease Services Limited. I would like to thank the management for giving us the opportunity to host this call. The management team is today represented by Mr. Ashok Reddy – MD and Co-founder; Mr. Ravi Vishwanath – CFO; Ms. Ramani Dathi – Financial Controller, and other senior management personnel.

We will start the call with a commentary from the management, and then move into the Q&A. Thank you, everyone. Over to you, sirs.

Ashok Reddy: Thank you, Rohit. Just an update on the Q1 and the overall performance from the corporate end. I think one of the key concerns of associate growth which was relatively soft for last year, we had looked at saying that our open positions were increasing, and we would look at an uptake in this year on the headcount front. So, I think we have had about 5,500 additions on the associate front and about 4,500 additions on the net app front, so totally about 10,000 incremental headcount growth that has come in on that side. We have also added about 400 to 500 in the specialized staffing vertical in terms of the headcount. And all of this has been managed by the same core headcount of Teamlease, so we have not had major additions in headcount, which has played to the aspect of the productivity, so the core employee to associate trainee productivity has improved to now 232.

I think the continued focus for growth leading to our top-line growth will be a consistent area for us to work on, and also the productivity aspect. While, year-on-year we have had margin improvement at the EBITDA and PBT level, I think sequential quarter we have had a marginal dip in the EBITDA margin, that is largely driven on account of the salary revisions and the upfronting of the cost of certain senior management that we have added to the business. And also, some element of the volume growth that comes in from lower mark up clients. But I think we will continue to drive up the volumes as we go forward. We will continue to work on the productivity aspect, scaling up the specialized staffing verticals to productivity in terms of margins and number growth. And I think in telecom also we have started looking at some additional areas to focus on which have some element of an upfront costing but will play out into the longer run in terms of the margin play.

So, I think overall the way we look at it, we have got a 20% growth in the revenues front, we have added about 10,000 net associates and trainees. The productivity improvement continues to play out. The other businesses are also starting to kick-up. So, I think that continued focus is what we will drive on going forward also. And look forward to any questions specifically that we could address.

Moderator: Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: So, my first question is on headcount addition. So at the beginning of the year we spoke about going back to our last five or six year average, maybe in the range of 15% to 16%. I know you did not quote that number, but given the run-rate which we achieved in 1Q FY19, are you still confident that we will end up the year somewhere in that range? And second question in terms of the margins, so I think in the previous quarter if you look at on a sequential basis there were some one off cost, especially in the Evolve Technologies, I think there the previous management was still there and their salaries were paid and the new management was also there. So, has the benefit of that come in this quarter's margins, especially in the specialized tapping segment? And when you say volumes coming from lower margin clients, can you please elaborate on that?

Ashok Reddy: So, I think sequential growth on associate numbers seem to be on track on that front, especially given that in Q1 we have added 5,500 associates and we have a healthy pipeline as we look at it going forward. So, like I mentioned last time and continue to say, I think this year we should be back to our historical track of growth. On the Evolve front, I mean actually the promoter only have moved out in Q1 and Q2 onwards we have our new person taking charge. But we have also beefed up the team with the N-1 level hires which historically there was no N-1 level from a leadership perspective in the organization, so there while the promoter has moved out we have brought in an additional five people to run the business into the future from a sales and delivery perspective. So there will be some cost increases on that front but we believe that the future of the business will kind of pay for that as we go forward. So, that is kind of taken care of. On the volume front, like I said, there are different clients at different rates who effectively have been growing. And some of the large growth that we have had this quarter and maybe even for next quarter is from some of the lower priced and fixed priced model clients, and that is really where the element of a sequential margin play comes in from.

Sudheer Guntupalli: So, is it fair to expect that even in the next quarter the margins will remain under pressure because of this?

Ashok Reddy: It is not under pressure, it is not the right term. Like we said, incrementally for the year we will work on margin improvement which will be a combination of the various P&L at play and we will be on target for that.

Moderator: Thank you. We have the next question from the line of Victory Raju from Equity Analyst Private Limited. Please go ahead.

Victory Raju: My first question is on this majority equity acquisition on this Fresher's World. Can you just elaborate on how is that margin accretive to Teamlease, because from the looks of it it appears that the company has Rs. 5 crores to Rs. 6 crores odd revenue and they have their own profit. What is the business model and how is the Teamlease benefitted?

Ashok Reddy: When we got into the Fresher's World initiative was family from a perspective of having access to and building digital platform for our hiring needs. So, we look at it two ways, one is access to organic growth in database and candidates that can come from the Fresher's World to meet our requirements in Teamlease or in the net app front. Second element is as a standalone business that helps us with corporate or for assisted hiring on an independent basis and generate revenues and profit. So, the way we had also structured the deal was taking an equity stake in the company and over a three-year timeframe acquiring additional stake to having a full control on the company so that it also locks in the promoters to the technology roadmap and to the element of the growth of the business. So, it is a profitable business and our belief is that a lot of the technology roadmap that has been laid out will complement our hiring and will also give us access to a database that will be utilized by the recruitment team.

Victory Raju: In short just to understand, the candidates who come through Fresher's World will be used to take associates or people in Teamlease, is that the right understanding?

Ashok Reddy: Yes. It becomes an additional channel that we will be able to utilize.

Victory Raju: Also, how does it improve the margins just because we become a majority owner?

Ashok Reddy: That does not improve the margins, it was an element of road play that we had with the organization of acquiring a stake in a phased manner. So it was not a business that we had capabilities to run overnight, we wanted the founding team to stay on for a period which was three years. And structuring of the deal was driven to acquisition over that period. And the incremental stake that we take in this year makes us cross 51%.

Victory Raju: Okay. Also, I guess if our associates or NETAP, the longer they basically work for us or the longer they basically work for a client, because if the client drops them maybe three months obviously there will be some disturbance, relocation cost and so on. So, I think that will naturally add to our margin profile, is my understanding right?

Ashok Reddy: So, it would not necessarily add to my margin profile, but effectively we are in an annuity business where carrying our opening balance for a long term is beneficial. So, if associates are going to drop and we have to keep feeding that attrition and then sustain a growth thereafter, the costs do increase. So it does not necessarily play to the realization margins but the costs do increase with higher attrition.

Victory Raju: Right. So, my actual question was, do we have any such metric of average client engagement with our associates or average associate engagements with Teamlease per year, some such metric do we have anything like that?

Ashok Reddy: So, while we have an attrition of about 45% to 50%, I mean we have associates, it is very client and profit specific in terms of attrition. We have associates who have been with us for over five, six, seven years. So, we do have what we tend to call long-term attempts. But we also have, in certain profiles and functions and industries where the attrition is much higher. So, a key focus area from our end is also looking at what we call employee engagement where we try and create multiple avenues to stay engaged with the associates to try and reduce attrition.

Victory Raju: Also, some color on the GST and how it is going, Ashok?

Ashok Reddy: Nothing much, like we have said the whole compliance loop closure is not yet fully in place, changes on the GST compliance front are still happening on a running basis. So I think it will still take some time for it to settle down.

Moderator: Thank you. We have the next question from the line of Sagar Lele from Motilal Oswal Securities Limited. Please go ahead, sir.

Sagar Lele: How do you see the potential for realization to further increase from here? The mark-up for associates has gone up marginally and you alluded to the addition of some fixed price contracts. How does this change your prior dependence on moving to variable pricing, I think the number was at 28%, are you still hoping for that number to equally increase as much as before?

Ashok Reddy: Incremental improvement on the variable pricing contract has not moved that much, it still stays roughly at the same 27% and 73% is in the fixed price contract. So we have seen a 1% movement on that front. So, like we said, all our pitches to proposals and to customers are on the variable price, on push back and negotiation it moves to fixed price. So, is something that is on a case-by-case basis and would not have a quantum shift at any point in time.

Sagar Lele: But then would you be taking up such contracts like you did in this quarter probably hurt in the medium term?

Ashok Reddy: As long as they are profitable from a perspective of my cost not being linear to the aspect of the revenue, I think it is worth taking those mandates.

Ramani Dathi: Also, important actually Sagar is to see whether these are collect and pay mandates or the funded, because most of these are collect and pay mandate, it easily does not impact you that much.

Ashok Reddy: I mean, our funding has actually come down, funded client mix has come down from 20% to 16% now.

Sagar Lele: So, you would also be baking in a certain amount of operating leverage to play out, and hence pricing it that way, so you are actually hoping for these margins to get covered up over a period of time?

Ashok Reddy: Yes, so if you really look at it, this addition of headcount that we had and even the projected growth in headcount that we are looking at will not entail a headcount increase at our end again this year.

Sagar Lele: No, I did not quite get that.

Ashok Reddy: So, the core team size is going to stay the same. For servicing the growth that we had in Q1 and the projected growth that we are expecting in the future quarters.

Moderator: Thank you. We have the next question from the line of Abhijeet Akella from IIFL. Please go ahead.

Abhijeet Akella: Just trying to understand a couple of segmental move this quarter. The other HR services seem to have grown very strongly, both in terms of revenues and margins. So if you could comment on that please?

Ashok Reddy: So, like we had indicated last time that we have a very aggressive growth on the training, learning services front. And I think that we have got a number of contracts in hand, it is about executing on the contracts and we see that playing out as we go forward into this year. So it will be a very strong growth on the other HR services front for the year, primarily with the element of the mandate and deliverables that we have in hand. And we believe that with those volume the margins will also improve as we go forward.

Abhijeet Akella: So, are these government contracts for skill development and things like that or is this private?

Ashok Reddy: If government contracts it is CSR mandate, it is corporate training, it is a combination of all these three, but the largest component is the government contracts.

Abhijeet Akella: And would you believe that the run-rate that we have seen in 1Q, Rs. 30 crores revenue and about 8% EBITDA margin in this segment, that is kind of the run-rate we should work with for the remaining quarter?

Ashok Reddy: Yes.

Abhijeet Akella: And then second on the specialized staffing side, I know you mentioned the headcount additions that have lead to kind of stabilization in margins at last quarter's level. So, again, this 7% range in terms of EBITDA margin, is that a good run-rate to work off for coming quarters?

Ashok Reddy: It is a good way to work off at this point. What we are continuing to look at is how can we change or increase the product mix to try and improve that. But at this point it is good rate to consider.

Abhijeet Akella: And would it be possible to give us a breakdown of your specialized staffing between Evolve and the rest in terms of employees and revenue EBITDA, if possible?

Ashok Reddy: So, on the Evolve front our headcount went from 4150 to 4500. And on the IT staffing front it was kind of flattish with a marginal increase of about 20 on that side. I think if you look at it from revenue perspective, it was about Rs. 31 crores in the IT staffing front and about Rs. 43 crores in the telecom side.

Abhijeet Akella: And EBITDA what you have with you?

Ashok Reddy: EBITDA will be about 3.6 in the IT staffing and 1.68 in the telecom.

Abhijeet Akella: So, some margin pressure in the legacy IT staffing side would you say?

Ashok Reddy: Not really, because if you look at it from Q4 from a 10.6% we have come to 11.6% and we have always said that the margins are going to be between 10% to 12% in the IT staffing front. So there is no pressure as such as we view it at this point in time. And telecom, we had mentioned that we have just added a new leadership team and cost and some element of new avenues that we are looking at and hopefully they will play out into Q3 onwards as we go forward.

Moderator: Thank you. We have the next question from the line of Alok Deshpande from Edelweiss Securities. Please go ahead.

Alok Deshpande: So, my first question was on the pricing environment. Just wanted to understand from you guys how that is shaping up in the market? This quarter's mark-up you mentioned in the press release was about 735 – 736, is it down sequentially or down compared to the second half of last year, so just wanted some color on that?

Ashok Reddy: It is down from 747 last quarter to 735 this quarter, so sequentially it is down while year-on-year it is higher. And like I said, it is a function of incremental growth coming from certain lower priced contracts and mandates and stuff, the ups and downs.

Alok Deshpande: So, fair to assume the contracts that were there or the existing contracts from last year they are still operating at the 747 or 750 level and only the new ones are down or is it an impact on the overall?

Ashok Reddy: So the old ones continue at the same price, they have not really come down. It is the mix of associates that determines the average realization.

Alok Deshpande: And just one more thing on the NETAP, I just wanted to understand the cost economics a little better again. So, this quarter's mark-up is about 590 and I believe about Rs. 120 go to the university. And then whatever the realization we make about 30% - 35% margins on that, is that the right understanding there?

Ashok Reddy: Yes, so we had about 590 as average realization, 450 gets transferred to Teamlease for handling their entire backend operation and support on the various front. So, about 40% of that is the margin play for us from a NETAP perspective.

Alok Deshpande: And just sort of reverting back to my first question, in terms of headcount addition are there any couple of larger sectors that we are targeting more to achieve this annual growth or is the growth more broad-based like before?

Ashok Reddy: It is broad based, I think we would like to continue to play to the aspect of our growth coming from multiple companies, multiple industries and multiple locations. So, obviously specific cities and specific people are aligned to verticals or to profiles and companies, at a company level I would say it will be broad based.

Alok Deshpande: So this quarter's lower mark-up contracts might not be a number to extrapolate for additional headcount, I mean it can be one off or it may not be one off, that kind of thing, right?

Ashok Reddy: Yes. But at times when you have large volume growth it does come at slightly lower prices.

Moderator: Thank you. We have the next question from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Ashok, I just wanted to check with you that given the tax breaks the staffing sector continues to enjoy and with no sunset clause in place for the same, do you think it is making some of your smaller competitors more competitive and more aggressive as far as pricing is concerned, if you could share any thoughts on the same?

Ashok Reddy: The pricing competitiveness from the small players was always in play, and again I will make the distinction between the formal and the informal, I mean the informal guys are a lot more price competitive because of the alternate revenue streams that exist for them. Amongst the formal players if you largely look at an average pricing, now in a specific contract the prices might wary higher and lower, but on an average most of the formal players are at about the same realization, that does not vary too much.

Garima Mishra: So, it is not that any of your clients have essentially started demanding that look you are getting this tax benefit, so you start sharing some of it with us or something of that sort?

Ashok Reddy: Not any specific conversation on that, because frankly the incremental associate growth cannot be necessarily attributed to a client per say, we are growing across the base. And the benefit that we carry is because of the volume and the scale at which we play. So, for a specific client to come back and say part of that is mine and hence give it back to me and stuff becomes a little difficult.

Garima Mishra: No, mathematically I completely agree that the kind of benefits that you will enjoy will be several times larger than any of your individual clients may enjoy if they were to do this on their own. But still you may still have certain people in tensile sectors that may look at it, so I thought…

Ashok Reddy: I mean, they may look at it, at least as of now they haven't. I agree with your point and it is a valid point. All I can say is at this point in time we have not had a arc on this front from anyone.

Moderator: Thank you. We have the next question from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: The first question is regarding the seasonality, so generally the first quarter is seasonally soft quarter, that was the understanding and the demand picks up going into the festive season. Now, with this growth in first quarter how do you see, is this right shifting which has played into 1Q and the other quarter maybe similar to what we have seen in the past or the left shifting of little bit of orders from the festive season?

Ashok Reddy: So it is not a left shifting of the festive season order book, I mean the festive season order book will come in at that point and hopefully there will be a further spurt in numbers at that point. But let me say, I think we did have a soft year in the previous financial and we have focused on the clients, the open positions and the delivery to ensure that we have a very strong Q1 in associate growth. And that has played out and we do hope that the incremental quarters will continue to be stronger in line with the overall trend that it should be.

Abhishek S: The second question is on the Evolve contribution. Now, the earlier understanding was, and you alluded to this that the margins came out to 1.8% versus the 6% - 7% that we need to understand. But what I am trying to understand is would that mean that the earlier thesis was the incremental contribution for higher margin business should lead to increasing the overall margins. However, for the past two quarters in Q4 and in Q1 what we are seeing is that the incremental Evolve business has lead to the specialized staffing margins being more or less flat on a quarter-on-quarter basis. So, I am just trying to understand, you alluded to some of it, but still anything that needs to be called out from a margin perspective?

Ashok Reddy: So, one is obviously the cost increases in the business when we bring in the new team and the leadership on that front. The second element is, we had clearly stated that we will take two, three quarters to integrate the business to the alignment in the new structure and take it forward, and hence it has kind of rather been flat. But I think as we look at it with the management coming into play with the element of the new focus, we should be able to get that business back. At least in the EBITDA level they have changed nearly 4% and I think we will continue to have the focus in the verticals to drive up the element of margin expansion.

Abhishek S: And if I may just another one, sir what is the rationale for going after this low mark-up clients in the telecom space, I mean what is the thought process of getting these clients?

Ashok Reddy: We have not gone after low margin clients in the telecom space.

Abhishek S: I said low mark-up.

Ashok Reddy: That is what, low mark-up we have not gotten into. So, if you look at it, some of it is largely the cost increase, the revenue has been kind of the same, the average realization from the accounts is largely the same. Some of the associate base is at a lower salary and we have an increased cost because of the management team.

Abhishek S: Okay, I thought I picked up in the opening comments that some of the growth was from lower mark-up client, so maybe I picked it wrong.

Ashok Reddy: That is for the general staffing business.

Moderator: Thank you. We have the next question from the line of Vaikam Kumar from JM Financial. Please go ahead.

Vaikam Kumar: Ashok, my question relates to the increase in other expenses as a percentage of sales, so I think there is an 80 bps expansion sequentially. If you can throw some light on the contributing factors?

Ashok Reddy: That would be directly in line with the business growth. You are talking in the HR services?

Vaikam Kumar: Overall.

Ashok Reddy: Overall will also be because of the HR services because there is a direct linearity of cost with the growth in revenues. So we have had a rapid growth in the revenue, like I had mentioned earlier the HR services revenue has grown quite a bit and hence we will have cost increases on that front. But in all other businesses there is nothing of a new nature.

Vaikam Kumar: Because if you look at the average run-rate for your last one year it has been about 2.3% whereas for this quarter it is about 3.2%, it is a significant jump considering that we are working in a low margin business. So is it completely attributable to the other businesses?

Ramani Dathi: Yes, Vaikam, largely because of services and also because this quarter we have the annual increment cycle. So on average we gave about 7.5% increase in the core employee salary. So all the HR service employees and corporate employee ESOPs will go into this bucket.

Vaikam Kumar: And secondly, maybe I mentioned that a large part of the new businesses have come in the low margin space, so does it make sense to continue to grow through these low margin businesses? Do we have a flow which we would not go?

Ashok Reddy: I mean absolutely, we track that element of it in terms of saying we are not going to take any and every mandate, we have turned down many mandates on pricing. But I think at a certain price if the mandate still seems to make sense from an absolute profit perspective I think it is worth taking forward.

Vaikam Kumar: And can we consider this as a sign of slowing demand environment?

Ashok Reddy: No, instead we are saying the demand is back on track and we should see growth.

Moderator: Thank you. We have the next question from the line of Victory Raju from Equity Analyst Private Limited. Please go ahead.

Victory Raju: Ashok, in the last call you mentioned that at any point in time we are in discussion with several people with regards to acquisition and regards to treatment to our organization and so on. This question is primarily because quarter-on-quarter as the business is generating a lot of free-cash and our kitty just keeps growing, among the probable candidates are there any which are like top client and bottom client, fairly because all along we have been doing very small acquisitions which are essentially margin accretive. So any color on that?

Ashok Reddy: I mean, we have been open in our outlook and reach to exploring any and every size potential deal in the market. So we have not been constraining ourselves to small deals or to the quantum of money that is in the bank at this point in time. But I think the deals that have worked out have been relatively the smaller ones, but which marry well with us from a perspective of the complimentarity in product offering or in technology or team. And I think that is the key focus are for us, I think we will continue to stay frugal with capital in the sense that we would look to deals that complement our core offerings and create adjacencies that can be leveraged to the future. So, even now we do have deal flow that we are evaluating and which is why we continue to keep the money with us.

Victory Raju: Also in the presentation I noticed that we basically cover all the states of the country, all the 29 states, that is a good thing and congratulations. Now, is there any network effort we have as a company as a large staffing provider serving all the states, is there some kind of a network effect if we get out of this?

Ashok Reddy: I mean, two ways, one is from a corporate client perspective if we have the network to support and service them across the country the larger corporate who need that element of a spread want to work with the larger players who have that competency and capability, and that competency and capability comes two folds, one is from an operations delivery perspective and the second is from a compliance delivery and adherence perspective. From an associate perspective, the fact that we have a present creates a referencability and a network that you can draw on to build future candidate pools. It is good to be widely present.

Moderator: Thank you. We have the next question from the line of Soumil Zaveri from DMZ Partners. Please go ahead.

Soumil Zaveri: One of the slides that spoke to me quite strongly was on the core employee productivity, staffing core employees grew by two people and on the other hand you had total outsource growing by 10,000 people quarter-on-quarter. So, can you just speak to your medium-term or long-term back of the envelope kind of expectations on how productivity is trending and how you see it playing out?

Ashok Reddy: So, if you really look at it in the last two years we have not really added major headcount on the staffing side, we have been servicing our associate growth with the existing headcount. Obviously there has been a change in mix of the teams at the back end and the level of people and so on. But that is a conscious choice that we have made. And I think the structuring, restructuring coupled with process and technology, handholding that is kind of happening will play out for productivity increases for us as we go forward. It is a function of what we have clear visibility on and sometimes it is also about how things change in the external environment which is either the corporate client or the government. So, I think we still have a large runway for, I would not be able to quantify into specifics, but we clearly have a large runway for productivity improvement as we go forward. And like I said, for this year we don't intend to increase the headcount on the staffing side.

Soumil Zaveri: And one quick follow-up, in terms of acquiring or keeping the funnel in terms of recruitment wide because there is a high attrition rate there, can you think about, like for one of the things I noticed was our overhaul on the Teamlease website, when you go to teamlease.com. Can you speak about the efforts made to keep that recruitment funnel wide and effective in terms of being able to recruit efficiency at scale?

Ashok Reddy: So, I think we are looking at the hiring three ways, one is to have a digital footprint which will be either teamlease.com coupled with Fresher's World and so on, that will enhance our ability to get direct access to candidates and mix them with the position that we have. We have a field hiring asset which is effectively saying we have recruiters on the ground and runners on the ground who are continuously validating and building a database of candidates that can match the client requirement. And the third source is what we call vendor channels which includes our training and learning platform which have access to candidates who can become candidates for placement at our end. And also working with other training companies and other data sources to be able to create a supply chain of candidates for us. So, there is no one model or one channel that works for addressing all our hiring needs, but we will continue to focus on these three channels to continuously build and get more efficient at the hiring activity.

Moderator: Thank you. We have the next question from the line of Rohit Khatri from Religare Capital. Please go ahead.

Rohit Khatri: Sir, you mentioned that the margins were affected on a sequential basis on the back of hike in salaries of core employees and low margins in the HR services. So, can we expect that the other expense as a percentage to sales to have peaked out in this quarter and can we expect it to come down in the coming quarters?

Ashok Reddy: So, it would not come down and it would not go up in absolute terms. I think the revisions are done, we will have a recurring run-rate of that as we go forward. The incremental management team that came in, they might be part cost in this quarter but we will have a full quarter cost going forward. But other than that we would not have a reduction, we would not have an increase, it will be flat.

Soumil Zaveri: So, somewhere around the same run-rate which we have of around 3.2 as a percentage to sale?

Ashok Reddy: Yes.

Soumil Zaveri: So, on the margins front on the sequential basis we have seen that your margins have declined by around 20 bps. So, can we expect that to be covered up and the core productivity?

Ashok Reddy: It is our intent. So, our focus has always been growth and margin improvement, I think those are the two areas that we will continue to focus on and drive on.

Soumil Zaveri: And sir what could be your outlook for the margins?

Ashok Reddy: I am not going to take an outlook statement but we should be able to do it.

Soumil Zaveri: So, can we expect the last year margins?

Ashok Reddy: I mean, we work on margin improvement, so I will leave it that.

Moderator: Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal Asset Management Company. Please go ahead.

Atul Mehra: Sir, just one observation, in terms of other HR services now is about 15% of the core general staffing EBIT and it has been growing at a very rapid pace. So if you could talk about a little bit more in terms of qualitatively how is this business expected to grow going forward? And if we were to index this to general staffing EBIT, so being 15% today what is the final scale up potential, can it be 30%, 40%, 50%, what is the journey and ultimate destination for this part of the business?

Ashok Reddy: So, I think if you look at our historical statements also, our top-line is largely driven by the staffing business and our other HR services and actually even the specialized staffing businesses don't really move the needle too much on the top-line revenue numbers. But we had always been stating that the margin improvement play for us will come from a perspective of productivity in the general staffing business coupled with the scale up that the HR services business which are higher margin businesses and specialized staffing businesses bring to the table. And we are seeing that kind of playing out. And I think also given the fact that the HR services businesses are on a relatively lower opening balance, the growth in those businesses is definitely going to be higher than in the staffing business. And the resultant higher margin play that it is will lead to overall margin improvement for Teamlease.

Atul Mehra: But sir in terms of qualitatively if you are to look at this, so for some of your clients while HR service is a strong component or a large component, so when you try and map that, so as compared to the core general staffing EBIT from those clients other HR would compose say 50% - 60% or 70% of the core general staffing EBIT from those set of clients?

Ashok Reddy: Not at this point in time. Maybe way into the future but at this point in time it will come to about 15% to 20%.

Atul Mehra: And one or two major services that we are delivering here in other HR services?

Ashok Reddy: It is training is the largest.

Moderator: Thank you. We have the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Two questions, one is, how does the deal pipeline look in each of the businesses versus same time last year? And the second one was, how have our participation rates been on this e-commerce discount, if you could compare it versus last year.

Ashok Reddy: We do have a much stronger pipeline of open positions and client flow this year compared to last year, and that is kind of reflecting in a much stronger Q1 growth as compared to Q1 growth last year on associates. And I think we see a steady state demand of that nature as we stand for Q2 and Q3 also, obviously unless something external variable kicks in. But as things stand, it seems to be much healthier this year as demand situation compared to last year. And even in our other lines of business, if I take the HR services that others were alluding to earlier, we have a much stronger pipeline of mandates that are up for execution and hence the confidence we have on that front of an exponential growth that we will see this year. So, while obviously that does not move the need for us to focus on sales, we will continue to focus on sales to build a healthier pipeline and a recurring pipeline. But we are seeing a better demand situation in the current scenario.

Nitin Padmanabhan: And the other question was on our participation rates in these ecommerce discount, has that sort of improved over the previous year?

Ashok Reddy: The demand is yet to kick up on that front, so the talk of the discount and the ramp up is in the pipeline, we work with quite a few of the players on that front, we are yet to see the volume kick up.

Nitin Padmanabhan: And just one thing I think we missed was on the IT staffing part of the business and Evolve, how has the strategy in terms of targeting clients evolved since the acquisition for both these businesses?

Ashok Reddy: So, if you look at the acquisitions that we did especially in the IT staffing front we had a very large presence in the service spectrum and I think we kind of cover all the clients that we would like to have on the service side. But while we got a opening footprint in the product and captive segment, we do not have very large client base on that front. So, I think while we will continue to look at farming on the services side, we clearly are focused on sales in the product and captive segment to increase the client portfolio that we have, hence also the numbers thereon. In the telecom space I think we cater to a large number of clients where the demand is, but the service was restricted to one or two areas and there is a potential for us to expand the scope of services to doing more with these customers, and that is something that we are evaluating.

Moderator: Thank you. We have the next question from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: So, if I understand it right, in telecom staffing you are saying there were few headwinds to the margins, one, you are talking about newer avenues of investments apart from the upfront investments made in leadership team. So if you can add some more color on that that would be helpful. And what would be the horizon of these investments, so would that be restricted to second quarter itself or to the entire year? And my second part of the question is on general staffing, again, you said the impact of lower margin contracts will also be felt in Q2, so will that stop there or will it be spread even further? And given all these variables are you still confident about meeting your long-term aspirational margin that we talk about?

Ashok Reddy: I will answer your last question first, I think yes, we do believe the margin improvement will out as we go forward. On the telecom front I think taking a specific element of a service that we were not in before but radio frequency mapping was an art from customer which requires an upfront investment in some element of CAPEX and in people. And the element of the revenues in the margins play out after about two quarters. So, from that perspective I think that investment says has been done and in the next two quarters we should see whether that business, that team chose to get into will be worth the longer-term play and investment. And it is a experiment for us, we will see how it has played out and take a call on it as we go forward. Similarly, there are other opportunities in the telecom space that unless we try it out we would not know. These are limited experiments that we are taking to get our feet into the business and see how they play out and take a call thereon of either expanding them or pulling back.

On the staffing front, the element of the realization on a per contract basis really depends on which contract is going to expand. While I have a visibility for Q2, I do not have the visibility for Q3 yet. So, some of the volume growth that we will get is from some of the clients which are below the average mark-up which have an impact on the overall realization. But our belief is that these mandates are worth keeping and worth doing and worth expanding on by virtue of the fact of the incremental cost involved on them not really being there that much.

Moderator: Thank you. We have the next question from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Sir, are we seeing any kind of shift from the variable mark-up pricing model to fixed mark-up pricing model from your large clients? Basically, as the clients grow larger they ask for discounts, so have you seen any kind of instance at the time of renewals? And if yes, what can be the quantum of that? So is that another reason that has been impacting your mark-ups?

Ashok Reddy: No, we have not had any change on that front really. And actually, if you see our variable mark-up base has increased 1%. Well, also if you look at the funding percentage has come down from our earlier 20% to 16%. So, it is not a necessarily a transition from variable to fixed mark-ups, but it could be that the growth that we have had is not from the variable client but from the fixed clients.

Amit Chandra: And also, we have been seeing very high growth in the NETAP trainees. So, as you said that the NETAP trainee is generally having higher margins, so can we have the breakup between the gross margins between the core associates and NETAP business?

Ashok Reddy: It is the same team that is actually working the entire backend of this. So it is difficult to distinguish between this and that.

Amit Chandra: Because in terms of the mark-ups in the NETAP trainees are less but in terms of gross margins it is at the higher, as far as I understand. So is it right?

Ashok Reddy: The stipend is lower, where as our average salaries in staffing is around 23,000 our average stipend is about 10,000.

Amit Chandra: Sir, higher increase in NETAP trainees will support margins?

Ashok Reddy: It will support margins.

Moderator: Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to Mr. Rohit Dokania of IDFC Securities, for closing comments. Over to you, sir.

Rohit Dokania: Thanks, everyone. Ashok, would you want to make any closing comments?

Ashok Reddy: No, I think just reiterating what we said earlier of continued focus on growth which has reflected in our associates and we will focus on margin improvement and capital frugality as we go forward, because our belief is that that lays the foundation for a strong business growth and continuity in the long run.

Moderator: Thank you very much, sir. Ladies & gentlemen, on behalf of IDFC Securities Limited, that concludes this conference call. Thanks for joining with us. You may disconnect your lines.